

VZCZCXRO1948
RR RUEHBZ RUEH DU RUEHJO RUEHMR RUEHRN
DE RUEHTO #1496/01 3210926
ZNR UUUUU ZZH
R 170926Z NOV 06
FM AMEMBASSY MAPUTO
TO RUEHC/SECSTATE WASHDC 6424
INFO RUCNSAD/SOUTHERN AFRICAN DEVELOPMENT COMMUNITY
RUEHLMC/MILLENNIUM CHALLENGE CORP 0119
RUCPDO/DEPT OF COMMERCE WASHDC
RUEHC/DEPT OF LABOR WASHDC
RUEATRS/DEPT OF TREASURY WASHDC

UNCLAS SECTION 01 OF 03 MAPUTO 001496

SIPDIS

SIPDIS

AF/S FOR HTREGER AND JMALONEY
JOHANNESBURG FSC FOR RDONOVAN
JOHANNESBURG TDA FOR DSHUSTER
USDOC FOR RTELCHIN
MCC FOR SGAULL
USAID FOR AA/AFR AND AFR/SA

E.O. 12958: N/A

TAGS: [ECON](#) [EAID](#) [EINV](#) [ETRD](#) [MZ](#)

SUBJECT: September/October Economic Digest: Mozambique

MAPUTO 00001496 001.2 OF 003

¶1. This is a brief summary of significant economic developments in Mozambique during September and October 2006. We provide it as a supplement to our other reporting. The items discussed are:

- USTDA Signs Grant with Aeroportos de Mocambique
- Labor Law Not Submitted to Parliament
- Inflation Less Than Four Percent Over First Three Quarters
- Tanzanians Purchase Defunct Textile Factory
- Hopes are High that South African Company will Revive Steel Industry
- Madgermanes Receive Shares of SOCREMO
- Illegal Trafficking of Precious Stones a Problem, Although Scope is Not Yet Known
- GRM Taking Action on Contraband

USTDA Signs Grant with Aeroportos de Mocambique

¶2. On October 20 USTDA Deputy Director Leocadia Zak signed a USD 445,000 grant agreement with Aeroportos de Mocambique that will provide for a feasibility study of the possible expansion of the Pemba, Nacala and Vilankulos airports. Signing the agreement with Ms. Zak were Charge d'affaires Elizabeth Raspolic and two members of the ADM board, Antonio Loureiro and Hermenegildo Mavale. This feasibility study will further enhance the GRM's potential development of Mozambique's tourism industry, complementing USAID's current tourism project in the northern provinces of Nampula, Niassa and Cabo Delgado. (See Maputo 460.)

Labor Law Not Submitted to Assembly

¶3. As reported earlier, (see Maputo 1002 and 561), in September the Council of Ministers approved for submission to the National Assembly a controversial revision to the labor law. Controversial because after two years of painstaking negotiation between unions, business groups, and the government, the Minister of Labor had unilaterally rolled back many of the changes that would have promoted job creation by making it less expensive to employ and dismiss people.

¶4. In the face of protests from the donors who had supported the process and the private sector (through the USAID-funding umbrella associatio of associations, CTA), the government has apparently decided to shelve the law until at least the next assembly (March, 2007). Although no reasos have been given, the law was not submitted to th parliament 30 days before the start of the session, and now could only be considered in the highy unusual event of a special presidential initiative. It is not clear whether the delay will increase the chances of signiicant reform.

Inflation Less Than Four Percent Over First Three Quarters

¶5. The Centrl Bank of Mozambique announced in September thatinflation has been falling in Mozambique since Aprl, resulting in less than four percent inflation over the first three quarters of the year. If this trend continues, the 2006 rate will be below the GRM target of seven percent. Bank spokesman Valdemar de Sousa acknowledged that inflation also seemed to be well under control at the same time last year, but that seasonal price surges resulted in more than half of the 2005 inflation occurring in November and December. As a result, the Bank is trying to prevent a similar spike this year - primarily through exchange rate stability.

MAPUTO 00001496 002.2 OF 003

Tanzanians Purchase Defunct Textile Factory

¶6. On October 9 the Tanzanian company METL (Mohammed Enterprises Tanzania Ltd) became the new 100 percent owner of Texmoque in the northern city of Nampula. Texmoque closed its doors in 1994 while under state management. In 1996 the Portuguese MultiplierGroup purchased a 70 percent interest in the company (the GRM retained the remaining 30 percent). Multiplier was never able to successfully restart production. METL currently runs textile plants in Tanzania and has promised to invest USD 20 million in new equipment and renovations. METL plans to resume production in 2007, with approximately 400 workers.

Hopes are High that South African Company will Revive Steel Industry

¶7. On October 6 the South African steel company Mittal Steel signed an agreement to purchase the assets of two currently defunct companies - the steel rolling mill, CSM, and the wire-drawing company, Trefil. A Portuguese investor purchased 60 percent of each company when they were privatized over 10 years ago, but never made the promised investmnt. As a result, Trefil stopped production over a year ago, and CSM closed over five years ago. Mittal is paying USD 11.4 million for the two companies' assets. Mittal states that this acquisition is part of its strategy to increase its sub-Saharan presence. In an initial investment phase Mittal will invest over USD 10 million dollars to make the factories operational. Current estimates are that this phase will create around 200 jobs and that the factories will be back in production in about six months, reaching an annual production of 72,000 tons

(CSM) and 32,000 tons (Trefil) within two years. As part of its concession agreement, Mittal committed to the development of the steel industry and mining sector and has identified several opportunities for steel industry growth in Mozambique, including fields of primary and downstream iron and steel manufacturing, development of coal and metallurgical coal mines and related processing plants and opportunities in the development of iron ore mine and related processing plants.

Madgermanes Receive Shares of SOCREMO

¶18. On September 28 the Forum of Mozambican Returnees (the Forum) from the former German Democratic Republic (also collectively known as the Madgermanes) received the GRM's shares in and profits from the micro-credit company SOCREMO. This transfer was part of a final settlement of the Madgermanes' claims announced by the Ministry of Labor in December 2005. The Forum sold the shares back to SOCREMO, making the total netted from the shares plus profits approximately USD 846,000. The forum must now decide how to handle the money and will likely invest for future returns. Simply sharing the money would give each registered Madgermane only slightly more than USD 50 each. There are nearly 22,000 Madgermane, all of whom were workers under a migrant labor agreement with the GDR.

Illegal Trafficking of Precious Stones a Problem, Although Scope Not Yet Known

¶19. On September 27 the GRM seized over 350 tons of precious stones, worth around USD 700,000, which were illegally extracted from the western province of Tete. This is Mozambique's first sizeable seizure of precious stones, and the Ministry of Mineral Resources has admitted that trafficking is a problem, but the scale is not yet known. According to the Ministry, turmalines and aquamarines are of particular interest to smugglers, but other stones and minerals (including gold) are seeing an increase in illegal trafficking. In an attempt to address the problem, the Ministry has increased inspections and placed technical

MAPUTO 00001496 003.2 OF 003

staff in all districts with mining interests.

GRM Taking Action on Contraband

¶20. In both September and October the GRM took action against contraband and IPR violations, seizing counterfeit cigarettes and illegally imported electronic goods. According to the head of Customs public relations, there were at least three seizures of counterfeit cigarettes during the month of September, reflecting the GRM's awareness of not only health concerns, but that piracy damages the interests of legitimate companies. Over the last two years much progress has been made in Mozambique regarding counterfeited goods and illegal imports as the result of a joint private sector/government task force that investigates and responds to suspected IPR violations.

Dudley